



Strengthening Tunisian Municipalities to Foster Local Urban Development

The Municipal Sector Investment Project, partly financed by a \$75 million World Bank loan made in 1992, marked the successful beginning of a decentralization effort in Tunisia to strengthen municipalities and transform them into effective agents for local urban development. The Tunisian government highlights this project as a catalyst and platform for the country's broader decentralization policy.

Innovative Project Design for Tunisia

Over the past 25 years, the World Bank and the international donor community have been active partners of the Tunisian government in urban development. The 1992 Municipal Sector Investment Project was an innovation in urban development. It systematically shifted responsibility, for the first time, to the municipalities. USAID contributed US\$3.4 million in co-financing, the Tunisian central government US\$76.1 million, and the municipalities US\$58.4 million.

Prior to this project, Tunisia's 257 municipalities had traditionally implemented plans handed down from the central government, which held the decisionmaking authority and resources. The project design used, while innovative for the highly centralized Tunisia, has been supported by the World Bank for many years in other Middle East and North

Africa Region countries, such as Jordan and Morocco, as well as in other parts of the world. Political support from the highest levels in Tunisia, the President and Minister of Planning, enabled the innovative approach of this project to urban development to come to fruition.

The primary objectives of the project were to strengthen the parastatal Municipal Funding and Support Agency (the *Caisse*), improve municipal provision of basic services, and increase the capacity of local municipal governments to foster urban development and increase their own resources.

Strengthening Tunisia's *Caisse*

Project funds were on-lent through a central funding agency, the *Caisse (des Prêts et de Soutien des Collectivités Locales)*, to finance municipal urban infrastructure investments such as low-income neighborhood upgrad-



ing, streets, markets, and municipal facilities. Prior to the project, the Ministry of Interior had determined lending policies and conditions at the Caisse. During the project, bilateral donors, including France, Italy, and the United States, together with the World Bank, provided funding for technical assistance and training, enabling the Caisse to gain considerable in-house competence and autonomy.

The Caisse became an agency capable of helping municipalities develop high-quality municipal development investment proposals that included specific sustainability provisions such as cost recovery. Under the project, the Caisse also became a more efficient administrator, halving the processing and approval time for municipal loan applications. In short, the project helped transform the Caisse from a cashiers' window, merely handing out central government grant money, into an effective financial intermediary and central government development agency for municipalities.

In this project, the government served as the borrower. The Caisse became the official borrower of a follow-on project—an indicator of its institutional development, maturity, and accomplishments.

Strong Demand for Urban Streets, Upgrading of Low-Income Areas, and Municipal Markets

To assess the impact of the investments, three cities were considered: Kasserine, Ariana, and Monastir. Overall, the most popular investments financed by the project were urban streets, upgrading of low-income areas, and municipal markets, which accounted for 86 percent of all project investments. There was comparatively less demand for street lighting, sanitation, and open-space investments.

Kasserine is a city of 74,000 residents. It has a weak economic base and is located in the semi-arid region near the frontier with Algeria. Works here were found to be of high quality, in good condition, and well-maintained.

Improved streets led to better access and drainage. Local residents were pleased with the improvements, and welcomed the opportunity to participate in decisions about investment planning for their community.

Ariana is a city of 165,000 residents within the metropolitan area of the capital, Tunis. It has a more solid economic base and easier access to funding for municipal investments. Less attention was given to operation and maintenance of facilities. In the El Mansoura I and II upgrading areas, for example, maintenance had been neglected. Drains had not been cleaned, broken street paving was left unrepaired, and strewn garbage undermined the initial sanitary improvements. In another case, poor project planning was noted where a one-kilometer stretch of recently built urban highway had been seriously damaged. Works undertaken by the state sanitation agency immediately after the project investment had caused the damage. Better project planning at the local level would have helped to coordinate the two investments, and to avoid such damage.

Urban services provided in **Monastir**, a prosperous historic center and tourist resort with 54,000 residents, were more varied than in the other two cities. The project brought improvements to numerous major urban streets; many were given proper public lighting for the first time. Investments were made in basic sanitation. The works reviewed, notably in the city's commercial complex and the El Faouz neighborhood, were of a good standard and were being properly maintained. Together, they contributed to a cleaner and more attractive historical town that is visited by many foreign tourists each year.

Municipal Resource Mobilization Higher than Expected

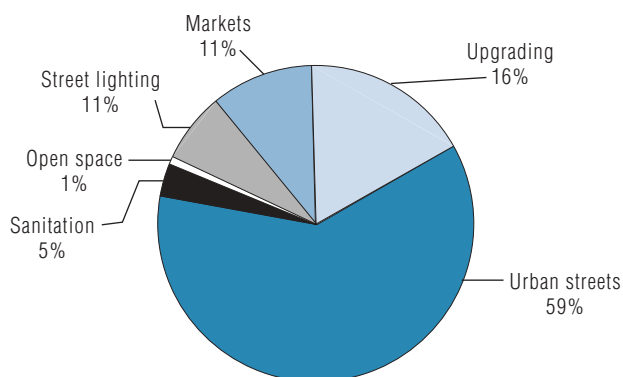
Project support and strong mobilization of resources by the municipalities themselves allowed Tunisian municipalities to finance more investments than originally forecast. Their net savings also increased considerably during the implementation of the project—by 1998 it reached twice the level expected in real terms. By building up net savings, municipalities demonstrated their financial ability to repay debts. The follow-on project provides an important opportunity for the government and the Caisse, with the support of Bank supervision missions, to ensure continued rigorous enforcement of loan repayment conditions by municipalities. Fiscal prudence ensured that annual current revenues would rise much faster (at 28.3 percent) than current expenditures (at 16.8 percent) over the 1991–98 period.

All Participating Cities Benefit, but Greater Project Impact in Larger Cities

Municipalities were invited to express their interest in participating in the project. Lending across cities was not pre-assigned and the project design did not anticipate a particular allocation of funding by type of city. The final allocation of project funds reflects the interests of the municipalities themselves, their creditworthiness, and the eligibility of their project proposals.

Project impacts differed with city size. In 1998, Tunisia's 21 largest cities (where nearly half of the urban population of the country lives) accounted for 44 percent of project lending, and 58 percent of the direct tax gain. Project

Investments by Sub-Project
(share of total cost)



financing had a greater impact on direct tax gains in larger cities. In per capita terms, the results demonstrate the economies of scale of larger cities, whose overhead costs of governance improvements are proportionately lower. Although medium-size and small cities did not reach the same collection level as large cities, they did accelerate collections more rapidly than large cities, albeit from a lower base. Thus, while direct tax collections per capita in large cities in 1998 were 89 percent higher in real terms than in 1991, the equivalent increases for medium-size and small towns were 128 percent and 149 percent respectively.

Project lending, as measured in per capita terms, was substantially higher for small cities—making the project an excellent vehicle for diversifying Bank assistance away from the traditional main-city beneficiaries.

Substantial Capacity Building Achievements

In **Kasserine**, local officials highlighted the capacity building gained through community participation. The project required that potential municipal borrowers consult the local population to determine priorities for lending and investment. In this context, the Kasserine municipality invited 50 community leaders to propose and discuss investments for their neighborhoods. According to local officials, a genuine consultative process with local residents has become standard practice in Kasserine in decisionmaking regarding municipal spending. This dialogue also helped to facilitate cost recovery, and nearly twice as much direct taxation was collected in Kasserine after the project as before.

In **Ariana**, local officials reported improved capacity building as a result of training provided by the project, specifically courses conducted by the municipal training center, which was also established under the project. Officials were better able to understand the requirements for efficient tax administration and budgeting. The project resulted in considerably improved financial management and the mobilization of increased revenues. The city became one of the main project participants, with an investment of 10.4 million Tunisian dinars over the 1992–98 period. In per capita terms, it was among the top ten of Tunisia's best tax-collecting districts. In municipal service provision, however, Ariana experienced shortcomings in planning and maintenance.

Capacity building in **Monastir**, the most prosperous of the three towns visited, took the form of partnerships and greater municipal outreach. For example, the project enabled the city to contract out specialized services, such as planning and design work, that had previously been performed in-house. The municipality consolidated its own Work Commission to adjudicate the awarding of work contracts and consultant services—a key step in decentralizing an activity that was the responsibility of the central government's Ministry of Equipment until 1996. In addition, municipal financial autonomy increased under the project. The share of municipal revenues from local taxes rose from 29.6 percent in 1991 to 38.1 percent in 1998.

Higher-Quality and More Numerous Municipal Staff

Decentralization to the municipalities meant that there would be increased responsibilities and more complex tasks performed at the local level. In this context, the project supported the creation of a larger and better-trained municipal workforce. With only 5 staff per 1,000 urban inhabitants, municipal staffing in Tunisia is still at a low level compared with many other countries. Under the project, the number of professional staff grew most rapidly, more than doubling during 1991–97, to outnumber administrative staff for the first time in 1997. The number of manual and temporary workers, while still constituting the majority, increased much more slowly. Altogether, municipal staff grew by 23.3 percent during 1991–97.

Support for the National Training Center for Regional and Municipal Staff

The project created and helped to support a National Training Center for Regional Staff to improve the quality of staff available to local governments. The Center began activities in 1995 and is now fully operational, providing more than 123 intensive training sessions a year that are open to staff from any municipality. Municipal demand for this training is evidenced by the willingness of municipalities to pay for these sessions. Cost recovery has made the Center more financially autonomous and represents a break from the past. It was initially set up within the Ministry of Interior and depended on the national budget for funding resources. Strong demand for training is the direct result of extensive Training Center consultations with the municipalities about their specific needs and requirements.

Under the follow-on project, likely future directions for the Training Center include the development of a more outward-looking training strategy that exploits the best training possibilities available in both the public and private sectors, as well as those in other countries.

Conclusions and Lessons

The project outcome was rated as satisfactory, sustainability as likely, and institutional development as substantial.

Increase Focus on the Poor

More explicit attention to the poor is needed. In spite of the many positive outcomes of the project, there was a lack of focus on poverty reduction in the design and implementation stages. For example, some project investments, notably urban streets, were made in some middle-to-higher-income areas. Some local officials were unfamiliar with the Bank's mission of poverty reduction, and saw no contradiction in investing in the more well-off areas.

Steps can be taken to ameliorate this situation: (i) future operations should explicitly target the poor and communicate this priority to municipalities during the first six months of project implementation; (ii) efforts toward greater consultation with and participation of poor communities—successfully begun in Kasserine—should be rein-

forced; and (iii) local authorities should continue to encourage small businesses, especially in residential areas where zoning laws might be revised to accommodate them.

Move from Project to Development Outcomes

Greater focus is now needed in looking at the development outcomes of municipal development projects. Several steps can be taken to achieve this. First, baseline development conditions of municipalities should be clearly documented from the outset. Second, measures of development outcomes could be introduced into a project's management information system. Third, a feedback mechanism enabling municipalities to routinely report improvements should be developed. Finally, project investments should be subject to more rigorous and accurate economic evaluation.

Project Operation and Maintenance a Priority for Sustainable Results

Without proper maintenance, project investments will deteriorate and cease to yield the expected benefits. In order to ensure sustainability of project investments, municipalities could be required to present an acceptable maintenance plan and monitoring mechanism with each loan application. Also, future loan approval to municipalities could be made conditional on proper maintenance of existing facilities.

Continue Municipal Reform

Institutional reform is a lengthy process that requires proper sequencing. The first project initiated reform through municipal capacity building in urban development. The second, follow-on project could build on this foundation and help municipal leaders focus more on the development outcomes of their efforts. Discussions and forums should be held to focus the attention of local officials on development outcomes in general, and poverty alleviation in particular. Also, larger municipalities could be supported in fully administering tax collection from their communities. Dialogue should continue at the national level to rationalize local taxes and gradually transfer responsibility to the local authorities.

Expand Municipal Capacity Building

Municipal capacity building can and should be allowed to take many forms. Different cities build capacity in a variety of ways, according to their particular interests and their access to a range and choice of technical assistance and training. Capacity building witnessed during the project ranged from greater community participation in determining municipal investment priorities to staff training related to municipal budgeting and finance.

Consolidate and Integrate Project Achievements

Consolidating project achievements and integrating them into the follow-on project will require a number of steps:

- Municipalities will need to generate a significant and stable level of resources through tax collection, user charges, and/or new taxes.
- The present system of state financial transfers needs reform, particularly in targeting poor municipalities with few resources.
- The system of financing local government investments will need further consolidation and broadening, to transform the Caisse into a financial institution that offers a wide range of products adapted to the evolving needs of local governments, community organizations, and other stakeholders.
- Complementary or alternative solutions are necessary for human resource development in and around local government, including making the local government training system a permanent feature.
- Programs aimed at upgrading local governments should be strengthened, accelerated, opened up, and adapted within their own environments.



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